BUSINESS STUDIES

SIMPLIFIED NOTES

Form Two

For Secondary Schools – Tanzania

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TOPIC ONE: PRODUCTION

What is Production?

Production is the process of **creating goods and services** to satisfy human needs and wants.

☞ In simple words: Production means **making things useful**.

Examples:

- Making bread from flour
- Teaching students in a school
- Making clothes from cotton
- Transporting goods from factory to market

Types of Production

There are **two main types of production**:

1. **Direct Production**
2. **Indirect Production**

1. Direct Production

Direct production is when a person **produces goods for his/her own use, not for selling.**

✓ The producer **uses the goods himself or with family members.**

Key Idea:

Produce → Use yourself

Example 1

A farmer grows:

- Maize
- Beans
- Vegetables

His family **eats the food themselves instead of selling it in the market.**

This is **direct production** because the goods are **produced for personal consumption.**

Example 2

A fisherman catches fish and **takes them home for his family to eat**, not for selling.

This is also **direct production**.

Example 3

A woman **cooks food at home for her children.**

She is producing food **for her family only**, not for business.

2. Indirect Production

Indirect production is when goods or services are **produced for selling in the market to earn profit.**

✓ The producer **does not use the goods personally**, but sells them to others.

Key Idea

Produce → Sell to others

Example 1

A farmer grows **rice** and sells it in the market.

He uses the money to buy other things like:

- clothes
- soap
- cooking oil

This is **indirect production** because the rice is **produced for sale.**

Example 2

A **tailor** makes clothes and sells them to customers.

He does not make clothes only for himself but **for customers in order to earn money.**

Example 3

A **shop owner** buys goods like:

- sugar
- rice
- soap

Then sells them to customers to **make profit**.

This is **indirect production**.

Clear Comparison

Direct Production	Indirect Production
Goods produced for **own use**	Goods produced for **selling**
No money involved	Money is involved
Usually small scale	Usually large enough for sale
Use traditional methods	Use modern methods
Example: farmer growing food for family	Example: farmer growing crops to sell

Simple Story to Understand

There are two farmers who grow maize in the village.

Farmer A – Bibi Tatu

- Grows maize
- Eats it with her family at home

This is **Direct Production**.

Farmer B – Babu Othman

- Grows maize
- Takes it to the market and sells it

This is **Indirect Production**.

Easy Way to Remember

Direct Production → Produce and Use
Indirect Production → Produce and Sell

Forms of Production (Stages or Levels of Production)

Production can be divided into **three main forms**:

(a) Primary Production

This involves **extracting natural resources** directly from the earth.

Examples:

- Farming
- Fishing
- Mining
- Cutting trees (forestry)

These activities give us **raw materials**.

(b) Secondary Production

This involves **changing raw materials into finished or semi-finished goods**.

Examples:

- Making sugar from sugarcane
- Making clothes from cotton
- Making furniture from timber
- Producing cement from limestone

This is also called **manufacturing**.

(c) Tertiary Production

This involves **providing services** that help in the production and distribution of goods.

Examples:

- Transport services (buses, trucks)
- Banking services
- Teaching and health services
- Trade (buying and selling)

Services do not produce physical goods but are very important.

Importance of Production

Production is important because:

1. It satisfies human needs and wants
2. It creates employment opportunities to many people
3. It increases government revenue through taxation
4. It promotes economic growth and development
5. It improves the standard of living of many people
6. It develops creativity and skills of people
7. It prevents wastages of available resources

Real-Life Example of Production

A **bread factory**:

- Land: Land where the factory is built and wheat is grown
- Labour: Workers and security guards in the factory

- Capital: Baking machines and ovens in the factory
- Entrepreneurship: Boss or owner of the factory

The final product is **bread**, ready for consumption.

Factors of Production

Factors of production are **resources used to produce goods and services**. There are **four main factors of production**:

1. Land
2. Labour
3. Capital
4. Entrepreneurship

1. LAND

Meaning of Land

Land is **natural resources** used in the production.

☞ It is not only soil, but **everything given by nature**.

Examples of Land

- Soil for farming and building
- Rivers, lakes and seas
- Forests, animals and trees
- Minerals (gold, diamond, coal)
- Oil and gas

Features (Characteristics) of Land

1. **Land is a free gift of nature** – it is not made by human beings
2. **Land is fixed in supply** – its total amount cannot be increased
3. **Land is immobile** – it cannot be moved from one place to another
4. **Land has different uses** – farming, mining, building, grazing etc
5. **Quality of land differs** – some land is fertile, some is not

Reward for Land

➞ Payment for land is called **Rent**

2. LABOUR

Meaning of Labour

Labour are **all human efforts** used in production.

☞ It includes both **brain work and hand work**.

Examples of Labour

- Teachers
- Farmers
- Factory workers
- Doctors and nurses
- Drivers and Pilots

Types of Labour

1. Skilled (Mental) Labour

Meaning:
These are workers who have **high education, special training, and a lot of experience**. They do difficult and professional jobs.

Key idea: Long training + high knowledge.

Examples:

- Doctor in a hospital
- Teacher in a school
- Engineer in construction
- Pilot in airplane
- Accountant in a bank
- Lawyer in a court

☞ They use **more brain or mental effort than physical strength**.

2. Semi-Skilled Labour

Meaning:
These are workers who have **some training or short training**. They use **both brain (mental) and physical effort**.

Key idea: Some training but not experts.

Examples:

- Carpenter
- Bus/Daladala driver
- Mechanic
- Barber/Salon worker
- Hotel/restaurant attendant

☞ They need **some skills but not very high skills**.

3. Unskilled (Physical) Labour

Meaning:
These are workers who **do not need special education or training**. Their work mainly uses **physical strength**.

Key idea: No special training, simple work.

Examples:

- Farm worker
- Cleaner and Janitor
- Porter (loading goods)
- Security guard
- Construction casual worker

☞ Their work is **easy to learn and uses more physical energy**.

Simple Comparison

Type of Labour	Training Level	Nature of Work	Example
Skilled	Long training	Difficult/Professional	Doctor, Teacher
Semi-skilled	Short training	Medium	Driver, Carpenter
Unskilled	No special training	Simple	Cleaner, Casual labour

Features (Characteristics) of Labour

1. **Labour is human effort** – it comes from people
2. **Labour cannot be stored** – unused labour is lost
3. **Labour is inseparable from the worker** – a worker must be present
4. **Labour differs in skills and efficiency** – skilled and unskilled labour
5. **Labour is perishable** – if not used today, it cannot be used tomorrow

Reward for Labour

➞ Payment for labour is called **Wages or Salary**

3. CAPITAL

Meaning of Capital

Capital is **man-made goods used to produce other goods and services**.

☞ Capital helps labour to work efficiently.

Examples of Capital

- Machines
- Tools
- Buildings
- Vehicles
- Equipment

Features (Characteristics) of Capital

1. **Capital is man-made** – created by human effort
2. **Capital is used in further production** – not for direct consumption
3. **Capital depreciates** – it wears out over time
4. **Capital increases productivity** – it makes work easier and faster
5. **Capital is mobile** – it can be moved from place to place

Reward for Capital

➞ Payment for capital is called **Interest**

4. ENTREPRENEURSHIP

Meaning of Entrepreneurship

Entrepreneurship is the **ability to organize other factors of production**, take risks and make business decisions.

☞ An entrepreneur is the **risk bearer and decision maker**.

Examples of Entrepreneurs

- Shop owner
- Factory owner
- Business founder
- Company director

Features (Characteristics) of Entrepreneurship

1. **Organizes other factors** – land, labour and capital
2. **Takes risks** – bears losses if business fails
3. **Makes decisions** – what, how and for whom to produce
4. **Innovative** – introduces new ideas and production methods
5. **Controls the business** – manages daily business activities

Reward for Entrepreneurship

➞ Payment for entrepreneurship is called **Profit**.

REVISION QUESTIONS

MULTIPLE CHOICE

Choose the correct answer and write its letter.

1. Production is best defined as:
   A. Buying and selling goods B. Creating goods and services C. Transporting goods D. Consuming goods
2. Which of the following is an example of production?
   A. Eating rice B. Driving to school C. Growing maize D. Sleeping
3. Which factor of production is a natural resource?
   A. Labour B. Capital C. Land D. Entrepreneur
4. The reward for labour is:
   A. Profit B. Rent C. Interest D. Wages
5. Which one is **capital** in production?
   A. Farmer B. Tractor C. Soil D. Rain
6. Direct production mainly aims at:
   A. Selling goods B. Personal use C. Export D. Government use
7. Which is **indirect production**?
   A. Farmer growing food for family B. Fisherman catching fish for home C. Baker producing bread for sale D. Student cooking lunch
8. The person who organizes other factors of production is:
   A. Labourer B. Entrepreneur C. Landlord D. Customer
9. Which of the following shows importance of production?
   A. Reduces goods B. Increases unemployment C. Improves living standards D. Causes scarcity

10. Production helps a country mainly by:
    A. Increasing poverty B. Creating goods and services
    C. Destroying resources D. Increasing imports
11. Which is an example of **land**?
    A. River B. Teacher C. Machine D. Manager
12. The reward for capital is:
    A. Wage B. Rent C. Interest D. Profit
13. Direct production is common in:
    A. Factories B. Shops C. Farming D. Supermarkets
14. Which factor takes risk in production?
    A. Labour B. Entrepreneur C. Land D. Capital
15. Production increases government revenue through:
    A. Donations B. Taxes C. Gifts D. Loans
16. Which is an example of labour?
    A. Nurse working in hospital B. Water in river C. Tractor
    D. Building
17. Which factor is man-made?
    A. Land B. Capital C. Rain D. Forest

SHORT ANSWER

1. Define **production**.
2. Give **three real-life examples** of production.
3. State **four importance of production**.
4. List the **four factors of production**.
5. Define **direct production** with one example.
6. Define **indirect production** with one example.
7. State **two differences between direct and indirect production**.
8. Mention **two examples of capital goods**.
9. State **two features of entrepreneurship**.

STRUCTURED / APPLICATION

1. A farmer uses land, workers, tractor and organizes tomato farming for sale.
    - (a) Identify the **four factors of production** used.
    - (b) State the **reward for each factor**.
2. Explain **four importance of production** to a country like Tanzania.
3. Differentiate between **direct and indirect production** using real-life examples (4 points).
4. Explain **four roles of an entrepreneur** in production.
5. Differentiate between **skilled and unskilled labour** using real-life examples.
6. Is footballer a labour? Give reason for your answer.

TOPIC TWO

FINANCING SMALL-SIZED BUSINESS

What is small-sized businesses?

Small-sized businesses are businesses that operates on a **small scale**, uses **small capital**, has **few workers**, and serves a **small market (local customers)**.

☞ Usually owned by **one person or a few people** and easy to start and manage. The Tanzania Small and Medium Entreprise (SME) Development Policy of 2003 recognizes small-sized businesses as both micro and small businesses. **Micro business** is a business that employs 1 – 4 people and capital investment of up to Tshs 5 million. A **small business** has 5 – 49 employees and capital investment of above Tshs 5 million to 200 million.

Characteristics (Main Features) of small-sized businesses

- Uses **small capital** (little money to start)
- Has **few employees** (about 1–10 workers or a little more)
- Operates in a **small area** (village, street, or town)
- Owner often **manages the business directly**
- Sells **small quantity of goods/services**
- Simple technology and equipment

Examples of small-sized businesses

- Small retail shop
- Food vendor
- Small fish selling business
- Vegetable/fruit seller

- Small poultry farm
- Tailoring business
- Motorcycle transport business
- Small carpentry workshop

Importance of small-sized businesses

Small-sized businesses have the following importance:

1. Creates Jobs and Reduces Unemployment

Small businesses hire people — even those with little formal education.

☞ *Example:* A small tailoring shop in Arusha employs 3–4 young people from the neighbourhood, giving them income instead of sitting at home. This reduces unemployment in the community.

2. Generates Income for Families

When people work in or own small businesses, they earn money that helps their families.

☞ *Example:* A vegetable stall owner in Morogoro earns enough to pay school fees and support his children's education. This increases household income and improves living standards.

3. Contributes to the Country's Economy

Small businesses add value to the economy by producing goods and services.

☞ *Example:* Many small food processors turn maize into flour or groundnuts into cooking oil, which are sold in markets and

contribute to GDP. In Tanzania, SMEs can contribute over a quarter of the total economic output.

4. Encourages Innovation and New Ideas

Small businesses often try new ideas to solve local problems.
☞ *Example:* A youth in Dodoma uses mobile money and bicycles to offer an affordable delivery service for people who cannot visit shops — this idea came from noticing a common need and turned into a business.

5. Supports Local Communities

They help the local economy by buying from nearby suppliers and serving local customers.
☞ *Example:* A bakery in Mwanza buys wheat flour from local farmers and hires local delivery drivers — so money stays within the community.

6. Promotes Balanced Regional Development

Because they exist in towns and villages alike, small businesses spread economic activity beyond big cities.
☞ *Example:* A small hair salon in a village in Manyara keeps business and jobs in that area, so people are less likely to move to Dar es Salaam in search of work.

7. Helps People to Become Self-Employed

Many youth and women start small businesses when formal jobs are hard to find.
☞ *Example:* A woman starts selling fabrics from home with a

small capital and eventually employs others — giving her independence and economic power.

Summary in one sentence (simple):
Small businesses *create jobs, earn income, grow the economy, spark new ideas, support communities, balance development, and empower people to work for themselves*.

The sources of funds for small businesses

The main sources of fund for small-sized businesses are loans from lenders, personal savings, deferred payments, funds from sale of personal assets and funds from family and friends.

A: LOAN

A **loan** is money that a person, business, or government **borrows** from another person or institution (like a bank) and **agrees to pay back later**, usually with **interest** (extra money paid for using the money usually expressed as percentage of the borrowed amount).

☞ In simple words:
A loan is **borrow now, pay back later with extra money**.

Example:

- A shop owner in Zanzibar borrows **TShs 1,000,000** from a bank to buy more goods.
- The bank tells him to return **TShs 1,200,000** after 6 months.
- The extra **TShs 200,000** is called **interest**.

Advantages of a Loan

1. **Helps to start or expand a business**
   Example: Asha borrows money to buy a sewing machine and starts a tailoring business.
2. **Solves emergency problems**
   Example: A father borrows money to pay hospital bills when a family member is sick.
3. **Allows you to buy expensive things**
   Example: A farmer takes a loan to buy a tractor instead of waiting many years to save money.
4. **Improves living standards**
   Example: A family takes a loan to build a better house.
5. **Creates business growth and profit**
   Example: A trader borrows money to increase stock and later earns more profit than the interest paid.

Disadvantages of a Loan

1. **Interest increases the amount to repay**
   You pay more than what you borrowed.
2. **Risk of losing property (collateral)**
   Example: If someone fails to repay a bank loan, the bank may take their land or house.
3. **Financial stress**
   Paying monthly installments can be difficult, especially if income decreases.
4. **Debt trap**
   Some people take another loan to repay the first loan, creating bigger debt.

5. **May damage reputation**
   Failure to repay on time can make banks refuse to lend you money again.

Simple Conclusion

A loan is helpful when used **wisely for productive purposes**, but it becomes dangerous if borrowed **without proper planning**.

B: PERSONAL SAVINGS

Personal savings is money that a person **keeps aside from their income** (salary, profit, pocket money, etc.) for future use (especially for starting or running or expanding a business).

☞ In simple words:
Personal savings is **money you keep today to use tomorrow**.

Examples:

1. A young man in Zanzibar saves **Tsh 600,000** from his job and uses it to open a small grocery shop. He does not borrow from anyone. That money is his **personal savings used to finance his business**.
2. A tailor saves money for one year and buys a sewing machine to start her tailoring business.
3. A farmer saves money from previous harvests and buys better seeds and fertilizer for the next season.

Advantages of Personal Savings

1. **No interest to pay**
   You don’t pay extra money like in a bank loan.

2. **Full control of the business**
   No one can interfere because it is your own money.
3. **Less financial stress**
   You don’t worry about monthly loan repayments.
4. **Low risk of losing property**
   No bank will take your house or land if business fails.
5. **Builds confidence and independence**
   You feel proud running a business using your own effort.

Disadvantages of Personal Savings

1. **Limited capital**
   Your savings may not be enough to expand the business quickly.
2. **Slow business growth**
   Without extra funds, expansion may take a long time.
3. **Risk of losing all your savings**
   If the business fails, you may lose the money you saved for years.
4. **May affect personal needs**
   Using all savings in business can leave you without emergency money.
5. **Missed opportunities**
   Sometimes big opportunities require more money than your savings can provide.

Simple Conclusion

Using personal savings to finance a small business is **safe and independent**, but growth may be **slow due to limited money**.

C: DEFERRED PAYMENT

1. Meaning

Deferred payment is a way of **getting goods or services for your business now and paying the money later**.

It helps small business owners start or continue their businesses **even when they do not have enough money immediately**.

Simple idea:
☞ *Take goods and sells now — Pay later after you get a profit.*

Example 1: Shopkeeper Taking Goods from a Wholesaler

Fatma wants to start a small shop selling rice, sugar, and soap. She does not have enough money.

A wholesaler gives her goods worth **Tsh 200,000** and tells her:

“Sell the goods and pay me after two weeks.”

Fatma sells the goods at a profit and later pays the wholesaler.

This is **deferred payment** because the business got goods **before paying money**.

Example 2: Restaurant Buying Food Supplies

A small restaurant owner buys:

- Rice
- Vegetables
- Cooking oil

Total cost = **Tsh 150,000**

The supplier says:

“Pay me at the end of the month.”

The restaurant uses the food to cook and sell meals first, then pays later.

This helps the business continue operating even without cash.

Example 3: Tailor Getting Fabric on Credit

A tailor wants to sew school uniforms but does not have money to buy fabric.

A fabric shop owner gives the tailor cloth and says:

“After you sew and sell the uniforms, pay me.”

The tailor gets money from customers and then pays the fabric seller.

This is **deferred payment used to finance the small business**.

Advantages of Deferred Payment

1. Helps to Start a Business Without Enough Money

A person can start a business **even if they do not have full capital**.

Example:
A shopkeeper receives goods first and pays later after selling them.

2. Improves Business Cash Flow

The business can **sell goods first and use the money to pay suppliers later**.

Example:
A fruit seller sells fruits during the week and pays the farmer at the end of the week.

3. Helps Business Grow Faster

Business owners can stock **more goods** even when they have little money.

Example:
A shopkeeper receives many goods from a wholesaler on credit and sells more products.

4. Builds Business Relationships

Trust grows between the supplier and the business owner.

Example:
A supplier continues giving goods to a restaurant because the owner always pays later as agreed.

Disadvantages of Deferred Payment

1. Risk of Debt

If the business fails to sell goods, the owner may **fail to repay the supplier**.

Example:
A shopkeeper receives goods worth **Tsh 300,000** but sells very little and cannot pay the supplier.

2. Pressure to Pay on Time

The business must pay at the agreed time even if profits are small.

Example:
A supplier demands payment after two weeks, but the business has not sold enough goods.

3. Possible Loss of Trust

If the owner delays payment too much, suppliers may stop giving goods on credit.

Example:
A wholesaler refuses to supply goods to a shopkeeper who delays payments.

4. Sometimes Higher Prices

Some sellers increase prices when selling goods on deferred payment.

Example:
A fridge costing **Tsh 800,000 cash** may cost **Tsh 900,000 when paid later**.

Advantages for Buyers

1. **Can get goods without cash immediately**
   Example: A shopkeeper takes sugar and rice from a wholesaler and pays after selling them.
2. **Helps start or run business easily**
   Example: A tailor receives fabric first and pays after selling the clothes.
3. **Improves cash flow**
   Example: A restaurant cooks and sells food first, then pays the supplier later.

Advantages for Sellers

1. **Increase sales**
   Example: A wholesaler sells more goods because shopkeepers can take goods and pay later.
2. **Attract more customers**
   Example: Many small retailers prefer buying from a supplier who allows payment later.
3. **Build good business relationships**
   Example: Trust grows between supplier and shopkeeper.

Disadvantages for Buyers

1. **Risk of debt**
   Example: If goods are not sold, the buyer may fail to pay the supplier.
2. **Pressure to pay on time**
   Example: A shopkeeper must pay the wholesaler even if business was slow.

Disadvantages for Sellers

1. **Risk of not being paid**
   Example: A supplier may lose money if the buyer refuses or fails to pay.
2. **Delay in receiving money**
   Example: The seller must wait weeks or months before getting payment.

Short Summary:

- **Buyers benefit** because they get goods now and pay later.
- **Sellers benefit** because they sell more goods.
- **Both face risks** if payment is delayed or not made.

D: FUNDS FROM FAMILY AND FRIEDS

Funds from family and friends are money that a person **receives from relatives or close friends to start or run a small business**.

Examples

Example 1: Starting a Small Shop

Asha wants to start a small shop but she has only **Tsh 200,000**.

Her brother gives her **Tsh 300,000** to add to her capital.

Now Asha has **Tsh 500,000** and starts the shop.

This money from her brother is **funds from family**.

Example 2: Starting a Food Business

Salim wants to sell **chips and eggs** but lacks enough money.

His friend lends him **Tsh 150,000** to buy:

- Potatoes
- Cooking oil
- A frying pan

Salim starts the business and promises to repay the money later.

This is **funds from friends**.

Advantages

1. Easy to Obtain

Family and friends usually trust the person.

Example:
A sister quickly gives her brother money to start a fruit-selling business.

2. Little or No Interest

Often they do not charge interest.

Example:
A mother lends her daughter **Tsh 200,000** without asking for extra payment.

3. Flexible Repayment

The borrower can repay slowly.

Example:
A friend says:
“Pay me when your business starts making profit.”

4. No Complicated Procedures

No forms, bank approvals, or collateral are needed.

Example:
A father gives money to his son the same day he asks for it.

Disadvantages

1. Risk of Family Conflicts

If money is not repaid, relationships may be damaged.

Example:
Two friends stop talking because one failed to repay the business loan.

2. Limited Amount of Money

Family and friends may not have large amounts.

Example:
A person wants **Tsh 3,000,000**, but relatives can only provide **Tsh 300,000**.

3. Pressure from Relatives

Some family members may keep asking for their money back.

Example:
An uncle keeps demanding repayment even when the business is still new.

4. Possible Interference

Family members may try to control the business.

Example:
A brother who provided money may try to decide how the business should operate.

E: FUNDS FROM THE SALE OF PERSONAL ASSETS

Funds from the sale of assets means **getting money for business by selling personal property or belongings (assets).**

Assets can include things like:

- Bicycle or motorcycle
- Furniture
- Livestock
- Old machines or equipment

The money obtained is used to **start or run a small business**.

Example 1: Selling a Bicycle

Juma wants to start a **fruit-selling business**, but he has no money.

He sells his **bicycle for Tsh 150,000** and uses the money to buy fruits and a small table for selling.

The business capital came from **selling his asset (bicycle).**

Example 2: Selling a Goat

Asha wants to start a **small food business**.

She sells her **goat for Tsh 200,000** and uses the money to buy:

- Cooking utensils
- Rice
- Cooking oil

This money comes from **selling an asset (goat).**

Example 3: Selling Old Furniture

A man wants to open a **small stationery shop**.

He sells his **old cupboard and table** and gets **Tsh 300,000** which he uses to buy exercise books and pens.

Advantages

1. No Debt

The business owner does not owe money from anyone.

Example:
Juma sells his bicycle and starts business without borrowing money.

2. No Interest Payment

The owner does not pay extra money like bank interest.

Example:
A person sells a goat instead of taking a loan.

3. Easy and Quick to Get Money

Selling personal property can quickly provide business capital.

Example:
A person sells a TV and gets money the same day to start a small shop.

Disadvantages

1. Loss of Personal Property

The owner loses the asset permanently.

Example:
After selling his bicycle, Juma no longer has a transport.

2. Limited Amount of Capital

The money obtained may not be enough for a large business.

Example:
Selling furniture may only provide **Tsh 200,000**, which may not be enough for a bigger business.

3. Risk if Business Fails

If the business fails, the owner loses both the asset and the money.

Example:
A person sells a goat to start a business, but the business fails and the goat is already gone.

Microfinancing and cooperatives in facilitating small business formation and operations

Small businesses in Tanzania often need **money, support, and training** to start and operate. Two important systems that help them are **microfinance institutions** and **cooperatives**.

1. Microfinancing

Microfinancing is the **provision of small loans and financial services to people with low income to help them start or expand small businesses.**

These loans are usually **small and easier to obtain than bank loans**.

Example

A woman in Zanzibar wants to start a **chapati and tea business**, but she has only **Tsh 50,000**.

She goes to a microfinance institution and gets a **loan of Tsh 300,000**.

She uses the money to buy:

- Flour
- Cooking oil
- Charcoal stove
- Tables and cups

She starts selling chapati and tea and repays the loan slowly from her profits.

Examples of Microfinance Institutions in Tanzania

Some organizations providing microfinance services include:

- FINCA Tanzania
- BRAC Tanzania
- PRIDE Tanzania
- Vision Fund Tanzania
- Tujijenge Tanzania

These institutions help small business owners to get **loans, savings services, and financial training**.

How Microfinance Helps Small Businesses

1. **Provides starting capital**
   Example: A youth receives a small loan to start a **mobile money kiosk**.
2. **Expands existing businesses**
   Example: A tailor borrows money to buy a **new sewing machine**.
3. **Encourages savings**
   Example: A small trader saves money regularly through a microfinance group.
4. **Creates employment**
   Example: A small poultry business started with a microloan employs two workers.

2. Cooperatives

A **cooperative** is a **group of people who voluntarily come together to achieve common economic goals**, such as saving money, getting loans, or selling their products.

Members **contribute money and help each other**.

Example

Twenty farmers in a village form a cooperative.

Each member contributes **Tsh 20,000 per month**.

The cooperative saves money and gives loans to members.

One member uses a loan to start a **small poultry farm**.

Examples of Cooperatives in Tanzania

Important cooperatives include:

- Kilimanjaro Native Cooperative Union
- Karagwe District Cooperative Union
- Savings and Credit Cooperative Societies

SACCOS are very common in Tanzania and help many small business owners to get loans.

How Cooperatives Help Small Businesses

1. **Provide loans to members**
   Example: A SACCOS gives a loan to a member to start a **small grocery shop**.

2. **Encourage saving habits**
   Example: Members save small amounts every month.
3. **Provide training and advice**
   Example: A cooperative trains members on **business management**.
4. **Help in marketing products**
   Example: Coffee farmers sell their coffee through a cooperative at better prices.
5. **Reduce costs through group buying**
   Example: Farmers buy fertilizers together at cheaper prices.

Short Summary

- **Microfinance institutions** provide **small loans and financial services** to help people to start or expand their businesses.
- **Cooperatives** are **groups of people working together to save money, get loans, and support each other's businesses**.

Both systems play an important role in **creating and supporting small businesses in Tanzania**.

REVISION QUESTIONS

SECTION A: UNDERSTANDING QUESTIONS

Concept of Small Sized Businesses

1. Explain what is meant by a **small sized business**.
2. Identify **three characteristics** of small sized businesses found in your community.
3. Why are most small sized businesses owned and managed by **one person or a few people**?
4. Give **four examples of small sized businesses** commonly found in Tanzania.
5. Asha runs a small shop with only two workers. Explain why this business can be classified as a **small sized business**.

SECTION B: IMPORTANCE OF SMALL SIZED BUSINESSES

1. Explain **five ways small sized businesses help the development of the Tanzanian economy**.
2. How do small businesses help to **reduce unemployment** in society?
3. Explain how small businesses help **people with low income improve their living standards**.
4. Many youths start small businesses instead of waiting for employment. Explain **three reasons why**.
5. A fruit seller in Zanzibar employs two assistants. Explain **how this business benefits the community**.

SECTION C: SOURCES OF FINANCE FOR SMALL BUSINESSES

1. Loan Financing

1. Explain the meaning of a **loan as a source of business finance**.
2. Identify **three institutions where a small business owner can obtain a loan in Tanzania**.
3. Explain **three advantages of loans for small businesses**.
4. Explain **three disadvantages of loans for small businesses**.
5. A tailor borrows Tsh 500,000 from a bank to buy a sewing machine. Explain how this loan may help the business grow.

2. Personal Savings

1. Explain what is meant by **personal savings as a source of business capital**.
2. Why do many small entrepreneurs prefer using **their own savings** to start a business?
3. Explain **three advantages of personal savings**.
4. Explain **three disadvantages of personal savings**.
5. Juma used his savings of Tsh 300,000 to start a vegetable business.
   Explain **two benefits he gets from using his own savings**.

3. Deferred Payment

1. Explain the meaning of **deferred payment** in business financing.

2. How can deferred payment help a person start a business with **little money**?
3. Explain **two advantages of deferred payment to buyers**.
4. Explain **two advantages of deferred payment to sellers**.
5. Explain **two disadvantages of deferred payment to buyers and sellers**

4. Funds from Family and Friends

1. Explain what is meant by **funds from family and friends** in business financing.
2. Why is this source of finance common for **new small businesses**?
3. Explain **three advantages** of funds from family and friends.
4. Explain **three disadvantages** of this source of finance.
5. Salim borrowed money from his uncle to start a food vending business.
   Explain **one benefit and one possible problem** of this source of finance.

5. Funds from Sale of Personal Assets

1. Explain the meaning of **funds from sale of personal assets**.
2. Give **three examples of assets that can be sold to obtain business capital**.
3. Explain **three advantages of selling personal assets to start a business**.
4. Explain **three disadvantages of selling personal assets**.
5. A farmer sells a goat to start a poultry business. Explain **two risks involved in this decision**.

SECTION D: MICROFINANCING AND COOPERATIVES

1. Microfinancing

1. Explain what is meant by **microfinance**.
2. Why are microfinance institutions important to **small businesses**?
3. Identify **three microfinance institutions operating in Tanzania**.
4. Explain **three ways microfinance helps small businesses grow**.
5. A woman receives a microloan to start a chapati business. Explain **how this loan can improve her economic life**.

2. Cooperatives

1. Explain what is meant by a **cooperative organization**.
2. Why do many small business owners join **SACCOS cooperatives**?
3. Explain **three benefits of cooperatives to small businesses**.
4. Identify **two types of cooperatives found in Tanzania**.
5. Explain how a cooperative can help farmers **market their products more easily**.

SECTION E: APPLICATION QUESTIONS

1. A youth wants to start a poultry business but has no capital. Suggest **three possible sources of finance** he can use and explain why.
2. Compare **personal savings and loans** as sources of business finance.

3. Explain **three reasons why microfinance institutions are more suitable for small businesses than banks**.
4. Many entrepreneurs prefer **deferred payment** instead of bank loans.
   Explain **two reasons for this preference**.
5. Explain how **SACCOS cooperatives help members start and expand businesses**.

SECTION F: CASE STUDY QUESTION

Asha completed her secondary education and wanted to start a **small stationery** in her village.

She used:

- Tsh 200,000 from her **personal savings**
- Tsh 300,000 borrowed from her **sister**
- She also received some exercise books from a **supplier on deferred payment**.

Questions

1. Identify **three sources of finance used by Asha**.
2. Explain **two advantages of using personal savings**.
3. Explain **one advantage and one disadvantage of funds from family**.
4. Explain **how deferred payment helped Asha to start her business**.

TOPIC THREE

SMALL BUSINESS MANAGEMENT

What is Business Management?

Business management is the process of **planning, organizing, directing, and controlling** business activities so that the business can achieve its goals such as making profit and satisfying customers.

Simple Meaning

☞ **Business management is how a business is run or controlled so that it operates successfully.**

It involves:

- Deciding what the business will do
- Organizing workers and resources
- Guiding employees
- Checking if the business is achieving its goals

Functions of Business Management

The following are the basic functions of business management:

1. Planning

Planning means **deciding in advance what the business will do, how it will do it, and when it will do it.**

It involves:

- Setting goals

- Deciding activities
- Preparing resources

Example

A young man wants to start a **juice business**.

Before starting he plans:

- Which fruits to use (mango, pineapple, passion)
- How much money is needed
- Where to sell the juice
- What price to charge

➞ Because of planning, the business starts **in an organized way instead of confusion**.

Another Example

A woman selling **chapati and tea** plans:

- To start cooking at **6:00 am**
- To prepare **100 chapatis daily**
- To buy ingredients every evening

➞ Planning helps the business **avoid shortages and waste**.

2. Organising

Organising means **arranging resources such as people, equipment, and materials so that work can be done properly.**

It involves:

- Arranging tasks
- Allocating resources
- Setting responsibilities

Example

A shop owner selling **rice, sugar, and soap** organizes the shop by:

- Placing goods neatly on shelves
- Separating food items from cleaning products
- Keeping a place for money and records

➞ This makes the shop **easy to manage and attractive to customers**.

Another Example

A small restaurant owner organizes by:

- Assigning one worker to cook
- Another worker to serve customers
- Another worker to clean tables

➞ Work becomes **faster and more efficient**.

3. Staffing

Staffing means **finding the right people to work in the business and assigning them suitable jobs.**

It involves:

- Hiring workers

- Training workers
- Allocating duties

Example

A tailoring shop owner needs help because orders are increasing.

He hires:

- One assistant to cut cloth
- Another assistant to sew clothes

➞ This helps the business **complete customer orders quickly**.

Another Example

A poultry farmer hires a worker to:

- Feed chickens
- Clean the poultry house
- Collect eggs

➞ The farm becomes **more productive**.

4. Directing

Directing means **guiding, supervising, and motivating workers so they perform their work properly.**

It involves:

- Giving instructions
- Supervising workers
- Encouraging workers

Example

A restaurant owner directs workers by:

- Showing cooks how food should be prepared
- Telling waiters how to treat customers politely
- Checking if food is served on time

➞ This ensures **good service and satisfied customers**.

Another Example

A shop owner directs his assistant by telling him:

- How to arrange goods
- How to talk to customers
- How to record sales

➞ Workers understand **what they should do**.

5. Controlling

Controlling means **checking whether business activities are going according to plan and correcting mistakes if necessary.**

It involves:

- Monitoring work
- Checking performance
- Correcting problems

Example

A shop owner checks his **daily sales records** and notices that sugar sales are decreasing.

He decides to:

- Reduce the price slightly
- Display sugar at the front of the shop

➞ Sales improve again.

Another Example

A poultry farmer checks the number of eggs produced each week.

If egg production drops, he:

- Checks chicken health
- Improves feeding

➞ This helps maintain **good production**.

Simple Summary Table

Function	Meaning	Example
Planning	Deciding what to do and how to do it	Planning what goods to sell in a shop
Organizing	Arranging resources and tasks	Arranging goods neatly on shelves
Staffing	Hiring and assigning workers	Hiring assistants in a tailoring shop
Directing	Guiding and supervising workers	Telling workers how to serve customers
Controlling	Checking work and correcting mistakes	Checking daily sales records

Managing small businesses

Small businesses can be **well managed** by following simple but important practices that help the business run smoothly, serve customers well, and make profit.

Here are **clear and simple ways with real-life examples**:

1. Good Planning

The owner should plan what the business will do and how it will operate.

Example:
A woman running a **chapati business** plans:

- How much flour to buy every day
- What time to start cooking
- How many chapatis customers usually buy

➞ Planning helps avoid wasting money and resources.

2. Keeping Proper Records

A small business owner should record **sales, expenses, and profit**.

Example:
A shop owner writes in a notebook:

- Money used to buy sugar, rice, and soap
- Money received from customers

➞ This helps the owner know if the business is making **profit or loss**.

3. Good Customer Service

Customers should be treated politely and honestly.

Example:
A shopkeeper greets customers, speaks kindly, and gives correct change.

➞ Happy customers **come back again and again**.

4. Proper Use of Money

The business owner should use money carefully and avoid unnecessary spending.

Example:
A small restaurant owner uses profit to **buy more ingredients** instead of spending all the money on personal things.

➞ This helps the business **grow**.

5. Controlling Stock

The owner should check goods regularly so they do not finish or spoil.

Example:
A shopkeeper checks shelves every evening to know which goods are finishing and need to be bought again.

➞ This prevents **loss of customers**.

6. Hard Work and Commitment

Small businesses succeed when the owner works hard and pays attention to the business.

Example:
A poultry farmer wakes up early to feed chickens, clean the house, and check their health.

➞ This keeps the business **productive and profitable**.

7. Good Supervision

If there are workers, the owner should guide and supervise them.

Example:
A tailoring shop owner checks the work of assistants to ensure clothes are sewn properly.

➞ This maintains **quality of goods or services**.

Financial and other record-keeping for a small business

Small business owners have to ensure that **all important business activities and financial transactions are properly recorded and kept safely**. This process is called **record keeping**.

Record keeping helps the owner to know how much money the business earns, how much money is spent, and whether the business is making profit or loss.

Therefore, small business owners must keep simple and clear **financial records such as cash book, sales day book, purchases day book** and **calculate profit or loss** by preparing **income statement** so that the business can be managed properly and grow successfully.

CASH BOOK

A **cash book** is a financial book used by a business to **record all money received (cash in) and all money paid out (cash out)**.

In simple words:

☞ **A cash book is a notebook where a business owner writes down every money that comes into the business and every money that leaves the business.**

A simple cash book usually has two sides:

Debit Side (Dr): Cash In (Money/Cash Receipts)	**Credit Side (Cr): Cash Out (Money/Cash Payments)**

This helps the owner to know **how much money or cash the business has at any time**.

Recording business transactions in a cash book is very important for a small business owner as it helps to track the business daily cash flow.

Example:

You are provided with the following transactions of Small Retail Business.
The Cash Transactions during January 2026 were as follows:
Jan 1: The opening balance were TShs 70,000.
Jan 2: The owner paid rent for cash TShs 50,000.
Jan 3: The owner sold goods for cash TShs 20,000.
Jan 4: The owner received cash from Lulu TShs 22,000.
Jan 5: He paid electricity and water bill TShs 6,000.
Jan 6: Bought Stock for cash TShs 37,000.
Jan 6: He sold goods for cash TShs 12,000.
Jan 7: He sold goods for cash TShs 17,000.

A Simple Cash Book for a Small Retail Business will appear as follows:

SALES DAY BOOK

A **Sales Day Book** is a **financial book where a business records all goods sold on credit (not paid immediately)**.

In simple words:

➞ Sales Day Book = A book used to record goods sold on credit only.

It **does NOT record cash sales** because cash sales are recorded in the **cash book**.

Simple Explanation:

When a customer **takes goods today but promises to pay later**, the business writes that transaction in the **Sales Day Book**.

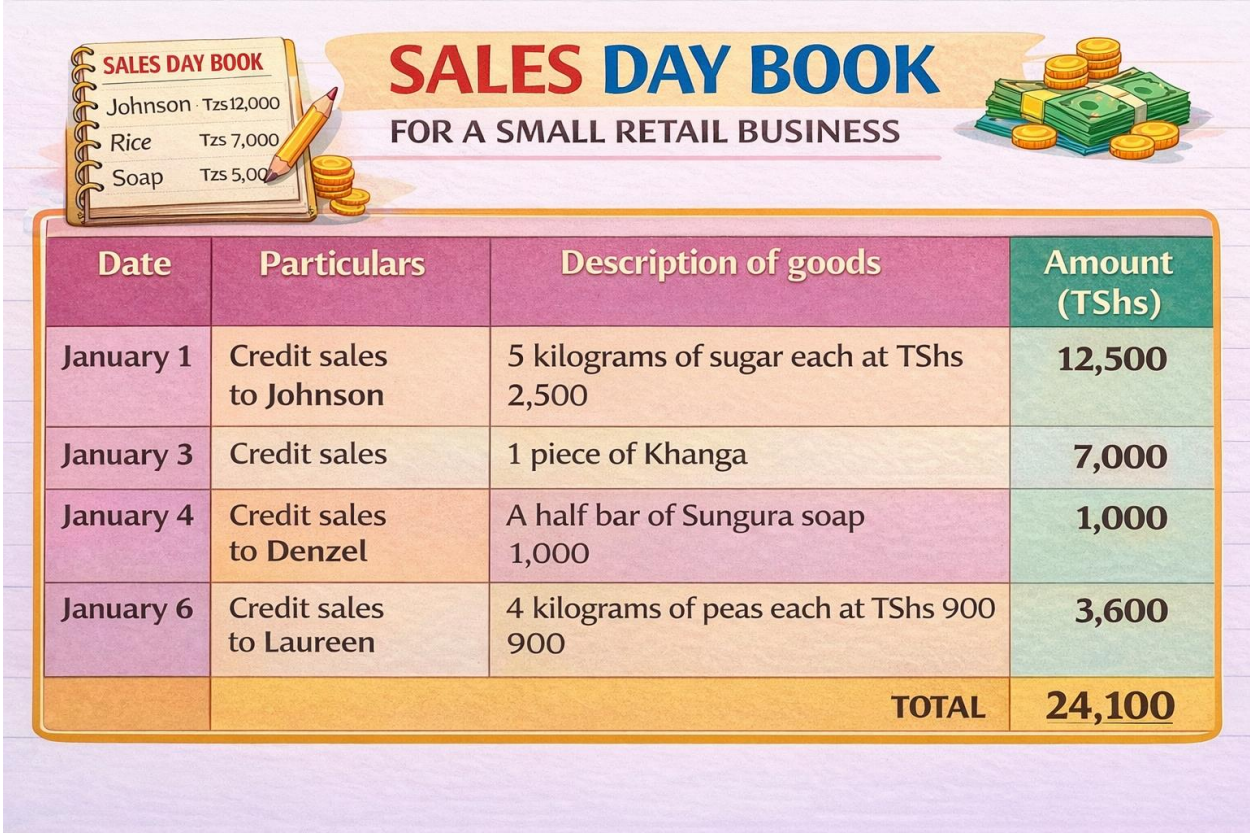
So the **Sales Day Book helps the business to remember who owes money.**

Example:

A small retail business owner made the following credit sales during January 2026 to various peoples (Debtors/Customers) as follows:

Jan 1: Credit Sales to Johnson, 5 kilograms of sugar each at TShs 2,500.
Jan 3: Credit Sales to a customer, 1 piece of Khanga at TShs 7,000.
Jan 4: Credit Sales to Denzel, a half bar of Sungura soap at TShs 1,000.
Jan 6: Credit Sales to Laureen, 4 kilograms of pees each at TShs 900.

The Sales Day Book for a small retail business will be as follows:



SALES DAY BOOK

FOR A SMALL RETAIL BUSINESS

Date	Particulars	Description of goods	Amount (TShs)
January 1	Credit sales to **Johnson**	5 kilograms of sugar each at TShs 2,500	**12,500**
January 3	Credit sales	1 piece of Khanga	**7,000**
January 4	Credit sales to **Denzel**	A half bar of Sungura soap 1,000	**1,000**
January 6	Credit sales to Laureen	4 kilograms of peas each at TShs 900 900	**3,600**
		TOTAL	**24,100**

PURCHASES DAY BOOK

A **Purchases Day Book** is a **financial book used to record all goods a business buys on credit**.

➞ Purchases Day Book = a book for recording goods bought on credit only.

It **does NOT record cash purchases**.
Cash purchases are recorded in the **Cash Book**.

Simple Explanation:

Sometimes a small business owner **takes goods from a supplier and promises to pay later**.

When this happens, the small business owner writes that transaction in the **Purchases Day Book**.

So this book helps the business to **remember how much it owes suppliers**.

Example:

A small business owner made the following credit purchases on January 2026 from various people (Creditors/Suppliers) as follows:

January 1: Credit purchases from Dafu Mills, 25 kg of rice each at TShs 2000.
January 3: Credit purchases from WD Cooking Oil Co. Ltd 10 litres of sunflower cooking oil each at TShs 2,600.
January 4: Credit purchases from DCS Company, 20 bars of Sungura soap each at TShs 800.

The purchases day book for a small retail business will be as follows:

PURCHASES DAY BOOK FOR A SMALL RETAIL BUSINESS

Date	Particulars	Description of goods	Amount (TShs)
January 1	Credit purchases from Dafu Mills	25 kilograms of rice each at TShs 2,000	50,000
January 3	Credit purchases from WD Cooking Oil Co. Ltd	10 litres of sunflower cooking oil each at TShs 2,600	26,000
January 4	Credit purchases from DCS Company	20 bars of Sungura soap each at TShs 800	16,000
	Total		**92,000**

Figure 3.3: *A simple purchases day book for a small retail business*

Profit and loss calculation for a small business

Small business determines profit or loss by following these steps:

1. Calculate Total Income

Find all the **money you received from selling goods**.

2. Calculate Total Expenses

Add **all money spent in the business**, including:

- Cost of goods bought
- Transport
- Wages
- Electricity
- Rent
- Any other business cost

3. Compare Sales and Expenses

- **If Total Income are greater than Total Expenses → Profit**
- **If Total Expenses are greater than Sales → Loss**

Formula (very simple):

Profit or Loss = Total Income − Total Expenses

Example

A small retail shop owner sells goods in one day:

Total Income

He sells:

- Rice
- Sugar
- Soap

Total Income = **400,000 TShs**

Total Expenses

He spent:

- Buying goods = 310,000 Tshs
- Transport = 10,000 Tshs
- Electricity = 5,000 Tshs
- Wages = 20,000 Tshs

Total Expenses = **345,000 TShs**

Determine Profit or Loss

Profit = Total Income – Total Expenses

Profit = **400,000 − 345,000**

Profit = 55,000 TShs

So the small retail shop owner **made a profit of 55,000 TShs**.

Preparing an income statement

An **Income Statement** is a **simple report that shows whether a business made a profit or a loss during a certain period.**

It simply compares:
Money earned (Income) and **Money spent (Expenses) to know whether we get profit or loss.**

1. Income (Sales)

Income or Sales is the **money a business receives from selling goods or services.**

Simple Example

A small shop sells in one day:

- Sugar = 50,000 Tsh
- Rice = 30,000 Tsh
- Soap = 20,000 Tsh

Total money received = **100,000 Tsh**

This **100,000 Tsh is the Income (Sales)**.

✓ Easy meaning:
Money coming into the business.

2. Expenses

Expenses are **all the money the business spends to run the business.**

Example

The shop owner spends:

- Buying goods = 70,000 Tsh
- Transport = 5,000 Tsh
- Electricity = 3,000 Tsh

Total Expenses = **78,000 Tsh**

✓ Easy meaning:
Money going out of the business.

3. Profit

Profit is the **extra money that remains after all expenses are paid.**

Example

Income (Sales) = 100,000 Tsh
Expenses = 78,000 Tsh

Profit = **100,000 − 78,000 = 22,000 Tsh**

So the shop owner **earns 22,000 Tsh profit**.

✓ Easy meaning:
Money the business gains.

4. Loss

Loss happens when **expenses are more than income.**

Example

Income (Sales) = 100,000 Tsh
Expenses = 120,000 Tsh

Loss = **20,000 Tsh**

The business **loses 20,000 Tsh**.

✓ Easy meaning:
Money the business loses.

Very Simple Way to Remember

Term	Simple Meaning
Income (Sales)	Money coming into the business
Expenses	Money going out of the business
Profit	Extra money after expenses
Loss	When expenses are more than income

Very Short Real-Life Story

Ali's small retail shop

- Customers buy goods worth **100,000 Tsh** → **Income**
- Ali spends **78,000 Tsh** on goods and other costs → **Expenses**
- Money remaining **22,000 Tsh** → **Profit**

If he spent **more than 100,000 Tsh**, that would be **Loss**.

Simple Income Statement Example

Amina Retail Shop
Income Statement for March 2026

Detail:		**Amount (Tsh)**
Sales		**500,000**
Expenses:		
Buying goods	350,000	
Transport	20,000	
Wages	40,000	
Electricity	10,000	
Total Expenses		**420,000**
Profit		**80,000**

Budgeting for Small Businesses

What is a Budget?

A **budget** is a **plan showing how much money a business expects to receive and how it plans to spend it in the future** (for example in a week, month, or year).

✓ Simple meaning:
A **budget is a financial plan for money coming in and money going out.**

Importance of budgeting

1. **Controls spending**
   It helps the business avoid spending too much.
2. **Prepares for future expenses**
   The owner knows what money will be needed.
3. **Prevents losses**
   Helps ensure expenses do not exceed income.
4. **Helps decision making**
   The owner can decide how much goods to buy.
5. **Shows expected profit**
   It helps the owner see how much profit might be made.

Types of Budgets

(a) Sales Budget

Shows **how much the business expects to sell**.

Example
A shop owner plans monthly sales:

- Rice = 300,000 Tsh
- Sugar = 250,000 Tsh
- Cooking oil = 200,000 Tsh

Expected Sales = **750,000 Tsh**

(b) Expenses Budget

Shows **all the money the business plans to spend**.

Example:

- Buying goods = 500,000 Tsh
- Transport = 30,000 Tsh
- Shop rent = 100,000 Tsh
- Electricity = 20,000 Tsh

Total Expenses = **650,000 Tsh**

(c) Cash Budget

Shows **how much cash will come in and go out** during a period.

This helps ensure the business **does not run out of cash**.

Simple Steps to Prepare a Budget

Step 1: Estimate Income (Sales)

Predict how much the business expects to sell.

Step 2: Estimate Expenses (Costs)

List all expected costs such as:

- Buying goods
- Rent
- Transport
- Wages
- Electricity

Step 3: Compare Income and Expenses

Projected Profit = Projected Income − Projected Expenses

Example:

Imagine **Fatima owns a small retail shop** and wants to prepare a **budget for one month**.

Projected Income

Item:	**Amount**
Rice	300,000 Tsh
Sugar	250,000 Tsh
Soap	150,000 Tsh
Total Income	**700,000 Tsh**

Projected Expenses

Expenses:	**Amount**
Buying goods	450,000 Tsh
Transport	30,000 Tsh
Shop rent	100,000 Tsh
Electricity	20,000 Tsh
Total Expenses	**600,000 Tsh**

Projected Profit

Projected Profit = Projected Income – Projected Expenses
Projected Profit = 700,000 − 600,000

Projected Profit = 100,000 TShs

So Fatima expects to **earn about 100,000 TShs that month**.

Simple Budget Format

Fatima Retail Shop
Monthly Budget

Item:	Amount (TShs)
Projected Sales	700,000
Projected Expenses	(600,000)
Projected Profit	100,000

Simple Ways Small Retail Businesses Control Their Budget

- Record daily sales
- Record daily expenses
- Avoid unnecessary spending
- Buy goods that sell faster
- Compare actual results with the budget

Very Simple Way to Remember

Budget = Plan for future money

Projected Income − Projected Expenses = Projected Profit

Control

Control means **checking and making sure that the business activities are going according to the plan.**

In simple words, control is **monitoring the business to ensure everything is done correctly and money is not wasted.**

Example

Ali owns a small retail shop.

He planned that his shop should sell **200,000 Tsh per day**.

Every evening he:

- Checks the **sales record**
- Counts the **cash**
- Checks the **remaining stock**

If he finds sales are **only 120,000 Tsh**, he investigates why.

Maybe:

- Goods are finished
- Prices are too high
- Customers are few

This process of **checking and correcting problems is called control.**

✓ Simple meaning:
Control = Checking if the business is running as planned.

Administration

Administration means **managing and organizing the activities of the business so that it runs smoothly.**

It involves:

- Planning
- Organizing work
- Making decisions
- Supervising workers
- Keeping records

Simple Example

Side owns a small retail shop.

Every day she:

- Decides **what goods to buy**
- Arranges goods on the shelves
- Tells the shop helper what to do
- Keeps records of sales and expenses

All these activities of **running and managing the business are called administration.**

✓ Simple meaning:
Administration = Managing and organizing the business.

Control and Administration Simple Difference

Term:	Simple Meaning:	Example:
Control	Checking if the business is following the plan	Checking daily sales and expenses
Administration	Managing and organizing business activities	Deciding what goods to buy and supervising workers

Easy way to remember

- **Administration → Running the business**
- **Control → Checking the business**

REVISION QUESTIONS

Section A: Business Management and Functions

1. Asha owns a small shop selling school supplies. Every week she plans the goods to buy, arranges them on shelves, records sales, and checks if the business is making profit.

a) Identify **two management activities** carried out by Asha.
b) Explain how these activities help her business run successfully.

2. Juma runs a small grocery store. Sometimes goods run out because he does not plan purchases in advance.

a) Suggest **two management actions** that Juma should take to avoid running out of stock.
b) Explain how these actions will improve the business performance.

Section B: Record Keeping

3. A small retail shop recorded the following activities during one day:

- Bought goods for Tsh 120,000 in cash
- Sold goods for Tsh 80,000 in cash
- Sold goods worth Tsh 60,000 on credit to Ali
- Paid transport expenses Tsh 10,000

a) Identify the **financial records** where each transaction should be recorded.
b) Explain why keeping these records is important for the business.

4. A business owner failed to keep financial records for several months. As a result, he could not determine whether his business was making profit or loss.

a) Explain **two problems** that may arise due to poor record keeping.
b) Suggest **two financial records** that should be maintained regularly.

Section C: Cash Book

5. The following transactions took place in Musa's shop during March:

- March 1: Capital introduced Tsh 500,000
- March 3: Purchased goods in cash Tsh 120,000
- March 6: Cash sales Tsh 200,000
- March 8: Paid electricity Tsh 30,000
- March 12: Received cash from debtor Tsh 50,000

Prepare a **simple cash book** showing:

- Receipts side
- Payments side
- Balance carried down

6. A shop started the week with **cash Tsh 100,000**. During the week the following transactions occurred:

- Cash sales Tsh 150,000
- Bought goods Tsh 80,000
- Paid wages Tsh 20,000
- Paid transport Tsh 10,000

a) Record the transactions in a **cash book**.
b) Calculate the **closing cash balance**.

Section D: Sales Day Book

7. During one week a shop made the following **credit sales**:

Date	Customer	Amount
May 2	Ali	40,000
May 4	Fatuma	55,000
May 6	Hamisi	30,000

a) Prepare a **Sales Day Book**.
b) Calculate the **total credit sales**.

8. A trader sells both **cash and credit**. Only credit sales are recorded in the sales day book.

During one day the following sales occurred:

- Cash sales Tsh 120,000
- Credit sales to Juma Tsh 50,000
- Credit sales to Salma Tsh 35,000

a) Record the **credit sales** in a sales day book.
b) Determine the **total value of credit sales**.

Section E: Purchases Day Book

9. The following credit purchases were made by a business:

Date	Supplier	Amount
June 3	Baraka Traders	70,000

Date	Supplier	Amount
June 5	City Suppliers	90,000
June 7	Modern Wholesalers	60,000

a) Prepare a **Purchases Day Book**.
b) Calculate the **total credit purchases**.

10. A shop purchased goods as follows:

- Cash purchase Tsh 100,000
- Credit purchase from Juma Traders Tsh 80,000
- Credit purchase from Salim Stores Tsh 60,000

a) Record the **credit purchases** in the purchases day book.
b) Calculate the **total credit purchases**.

Section F: Profit and Loss Calculation

11. A small shop recorded the following information for one month:

- Total sales Tsh 900,000
- Cost of goods sold Tsh 500,000
- Expenses Tsh 200,000

Calculate:

a) **Gross profit**
b) **Net profit**

12. A business had the following figures:

- Sales Tsh 750,000
- Expenses Tsh 820,000

a) Calculate the **profit or loss**.
b) State whether the business made **profit or loss**.

Section G: Income Statement

13. A small retail shop recorded the following during April:

- Sales Tsh 1,200,000
- Cost of goods sold Tsh 700,000
- Rent Tsh 150,000
- Salaries Tsh 200,000
- Transport Tsh 50,000

Prepare an **Income Statement** showing:

- Total Income
- Total Expenses
- Net Profit

14. The following information was obtained from a small business:

- Sales Tsh 800,000
- Cost of goods sold Tsh 450,000
- Electricity Tsh 50,000
- Wages Tsh 100,000

Prepare a **simple income statement**.

Section H: Budget Preparation

15. A small business owner expects the following monthly figures:

- Sales revenue Tsh 900,000
- Cost of goods Tsh 500,000
- Rent Tsh 150,000
- Salaries Tsh 120,000
- Other expenses Tsh 80,000

a) Prepare a **monthly budget**.
b) Determine the **Projected profit**.

16. A shop owner plans the following for next month:

- Expected sales Tsh 700,000
- Expected purchases Tsh 350,000
- Rent Tsh 120,000
- Transport Tsh 60,000
- Wages Tsh 90,000

a) Prepare a **budget plan**.
b) Calculate the **projected profit or loss**.

Control and Administration

17. A shop owner checks stock every week and compares the sales records with the cash available.

a) Identify the **management activity being applied**.
b) Explain how this activity helps prevent losses in the business.

18. In a small business, the owner assigns workers different duties such as sales, purchasing goods, and keeping records.

a) Explain how **proper administration** improves business efficiency.
b) Suggest **two ways** the owner can ensure effective control of business activities.

TOPIC FOUR: WAREHOUSING AND INVENTORYING FOR SMALL BUSINESSES

Meaning of Warehouse

A **warehouse** is a **building or place where goods are kept safely before they are sold or used in the business**.

In simple words, a warehouse is **a storage place for business goods**.

Simple Example

A small shop owner in a town sells **bags of rice, sugar, and cooking oil**.
He cannot keep all the goods inside the small shop because there is not enough space.

So he rents a **separate room or store building** where he keeps extra bags of rice and cartons of oil.

That **room used to store the goods is called a warehouse**.

Another Example

A person selling **clothes** buys **200 shirts from a supplier**, but only **40 shirts fit in the shop**.

The remaining **160 shirts are kept in a storage building behind the shop** until they are needed.

That building is the **warehouse**.

Meaning of Warehousing

Warehousing is the **activity or process of storing goods safely in a warehouse until they are needed for sale or use**.

In simple words:
Warehousing means keeping business goods in storage until the business needs them.

Example:

A small supermarket buys:

- 100 cartons of soda
- 50 bags of rice
- 30 cartons of biscuits

Only a few items are placed on the **shop shelves for customers**. The rest are kept in the **storage room at the back**.

Keeping those goods safely in the storage room until they are needed is called **warehousing**.

Very Short Way to Remember

- **Warehouse = Place** where goods are stored
- **Warehousing = Activity** of storing goods

✅ Example to remember easily:

A shop owner buys **100 boxes of soap**.

- The **building where the soap is kept → Warehouse**
- The **act of keeping the soap there safely → Warehousing**

Types of warehouses

Warehouses may be classified in to six types depending on their ownership and functions. These types are private warehouses, public warehouses, bonded warehouses, distribution centres, climate-controlled warehouses and smart warehouses.

1. Private Warehouse

A **private warehouse** is a warehouse that is **owned and used by one company or business only** to store its own goods.

In simple words:
It is **a storage building that belongs to a single business**.

Example:

A big supermarket buys many goods like rice, sugar, soap, and drinks in large quantities.
The shop cannot keep all these goods inside the shop.

So the supermarket builds **its own storage building behind the shop** to keep extra goods.

That building is a **private warehouse** because **only that supermarket uses it**.

Another Example

A furniture company has a large building where it stores **tables, chairs, and beds** before sending them to shops.
Since the company owns the building, it is a **private warehouse**.

2. Public Warehouse

A **public warehouse** is a warehouse **owned by a company or the government that rents storage space to many businesses**.

In simple words:
It is **a warehouse that any business can rent to store goods**.

Example:

A small shop owner imports **100 bags of rice**, but he does not have a storage building.

He rents space in a **large storage warehouse in the city** where many other traders also store their goods.

That storage building is a **public warehouse**.

Another Example

A farmer harvests many bags of maize and keeps them in a **government grain storage warehouse** until he sells them.
That warehouse is a **public warehouse**.

3. Bonded Warehouse

A **bonded warehouse** is a warehouse where **imported goods are stored before import tax or customs duty is paid**.

In simple words:
It is a **special government-controlled warehouse for imported goods waiting for tax payment**.

Example:

A trader imports **100 cartons of phones from another country**.

Before selling them, the government requires the trader to pay **import tax**.

The phones are first kept in a **customs warehouse at the port** until the trader pays the tax.

That warehouse is a **bonded warehouse**.

4. Distribution Centre

A **distribution centre** is a warehouse where goods are **received, sorted, and quickly sent to different shops or customers**.

In simple words:
It is a **warehouse that moves goods quickly to different places**.

Example:

A large supermarket company receives goods like:

- rice
- sugar
- soap
- milk

All goods first go to a **large warehouse where workers sort them and send them to different supermarket branches**.

That warehouse is a **distribution centre**.

5. Climate-Controlled Warehouse

A **climate-controlled warehouse** is a warehouse where **temperature and humidity are controlled to protect sensitive goods**.

In simple words:
It is **a warehouse with machines that control temperature to keep goods safe**.

Example:

Medicines must be kept at a **cool temperature** so they do not spoil.

A pharmaceutical company keeps medicines in a warehouse with **air conditioning and temperature control**.

That warehouse is a **climate-controlled warehouse**.

Another Example

Companies storing **fruits, meat, or milk** use cold warehouses to keep the food fresh.

6. Smart Warehouse

A **smart warehouse** is a modern warehouse that uses **technology, computers, sensors, and sometimes robots to manage goods automatically**.

In simple words:
It is **a warehouse that uses technology to store and move goods efficiently**.

Example:

A big online shopping company stores thousands of products in a warehouse.

Instead of workers searching for items, **machines and computers find the product location and robots bring the goods** for packing.

This type of warehouse is called a **smart warehouse**.

Simple Summary Table

Type of Warehouse	Simple Meaning	Example
Private warehouse	Owned by one business	Supermarket storage building
Public warehouse	Storage rented to many businesses	City storage warehouse
Bonded warehouse	Imported goods stored before tax payment	Customs warehouse at port
Distribution centre	Goods sorted and sent to many shops	Warehouse supplying supermarket branches
Climate-controlled warehouse	Temperature-controlled storage	Medicine or food cold storage
Smart warehouse	Technology and automation used	Online shopping company warehouse

Warehouse management

Meaning of Warehouse Management

Warehouse management is the **process of organizing, controlling, and taking care of goods inside a warehouse so that they are stored safely, easily found, and kept in good condition until they are needed.**

In simple words:
Warehouse management means managing how goods are stored, protected, and handled in a warehouse.

Good warehouse management helps a business:

- avoid damage to goods
- find goods quickly
- keep accurate stock records
- prevent losses

Simple Example

A shop owner sells **rice, sugar, soap, and cooking oil**.
He keeps extra goods in a storage room behind the shop.

If he **arranges goods properly, keeps the store clean, checks stock regularly, and trains workers**, the goods stay safe and easy to find.

This process is called **warehouse management**.

Warehouse Management Practices

These are **important activities done to manage a warehouse properly**.

1. Arrangement of Goods in the Warehouse

This means **placing goods in an organized way so they are easy to find and safe**.

Goods are usually arranged:

- by **type**
- by **size**
- by **date of arrival**

Example

In a warehouse storing food products:

- Rice bags are kept in one area
- Sugar bags in another area
- Cooking oil cartons on shelves

This arrangement makes it **easy for workers to find goods quickly**.

2. Cleaning the Warehouse

Cleaning means **keeping the warehouse free from dust, dirt, insects, and waste**.

A clean warehouse helps to:

- protect goods from damage

- prevent pests like rats and cockroaches
- maintain hygiene

Example

A warehouse storing **flour and maize** must be cleaned regularly.

If it is dirty, **rats may destroy the bags and contaminate the food**.

3. Regulation of Atmospheric Conditions

Some goods require **special temperature, humidity, or ventilation** to prevent spoilage.

This means controlling:

- **temperature**
- **moisture**
- **air circulation**

Example

A warehouse storing **medicine or milk** uses air conditioners or refrigerators to keep the goods cool so they do not spoil.

Another example:
A warehouse storing **coffee beans** must be dry to prevent mould.

4. Use of Modern Facilities

Modern warehouses use **machines and technology to make work easier and faster**.

Examples of modern facilities include:

- forklifts
- conveyor belts
- computers for inventory records
- barcode scanners

Example

In a large warehouse, workers use **forklifts to lift heavy boxes** instead of carrying them by hand.

This saves time and prevents injuries.

5. Physical Inventory Counting

This means **counting the actual goods in the warehouse to know how many items are available**.

It helps the business:

- know the correct stock level
- detect missing goods
- avoid running out of stock

Example

A shop owner checks the warehouse and counts:

- 50 bags of rice
- 40 cartons of soap
- 20 cartons of cooking oil

This counting helps him know **when to buy more goods**.

6. Regular Equipment Checks

Warehouse equipment should be **checked regularly to ensure it is working properly**.

Equipment includes:

- forklifts
- shelves
- refrigerators
- lighting

Example

If a warehouse refrigerator stops working, **milk or medicine may spoil**.

Checking equipment regularly helps **prevent such losses**.

7. Enforcing Safety Regulations

Safety regulations are **rules that protect workers, goods, and the warehouse building**.

Examples include:

- wearing protective equipment
- proper stacking of goods
- keeping emergency exits clear

Example

Heavy boxes must **not be stacked too high**, because they may fall and injure workers.

Following safety rules **prevents accidents**.

8. Training Warehouse Staff

Warehouse workers must be **trained to handle goods properly and follow warehouse procedures**.

Training helps workers learn:

- how to arrange goods
- how to use machines
- how to keep records
- how to follow safety rules

Example

A worker who is trained to use a **forklift machine** can move goods safely without damaging them.

Untrained workers may **break goods or cause accidents**.

Simple Summary

Warehouse management includes:

1. Arranging goods properly
2. Cleaning the warehouse
3. Controlling temperature and humidity
4. Using modern equipment
5. Counting stock regularly
6. Checking equipment
7. Following safety rules
8. Training workers

All these activities help a business **protect goods, reduce losses, and operate efficiently**.

Merits (advantages) of warehousing

Warehousing is very important because of the following benefits that helps businesses to run smoothly:

1. Storage of Goods

The main advantage of warehousing is that it **provides a safe place to keep goods until they are needed**.

Businesses often buy goods in large quantities, but they cannot sell all of them immediately.

Example

A shop owner buys **100 bags of rice**, but only **20 bags can fit in the shop**.
The remaining **80 bags are stored in a warehouse** until customers buy them.

This helps the shop **avoid shortage of goods**.

2. Protection of Goods

Warehouses help **protect goods from damage, theft, rain, heat, dust, and pests**.

Example

If a trader keeps **sugar bags outside**, rain may damage them.

But if the sugar is stored inside a **warehouse with a roof and walls**, it stays **dry and safe**.

3. Continuous Supply of Goods

Warehousing helps businesses **keep goods available for customers all the time**.

Even when new goods have not arrived yet, the business can **sell goods stored in the warehouse**.

Example

A supermarket keeps **extra cartons of milk and drinks in the warehouse**.

When shelves become empty, workers bring more goods from the warehouse.

This ensures **customers always find goods available**.

4. Stabilization of Prices

Warehousing helps **reduce large price changes in the market**.

Goods can be stored when there is **too much supply** and sold later when supply is **low**.

Example

During harvest season, **maize is very cheap** because there is a lot of it.

Traders store maize in warehouses and sell it **later when supply decreases**.

This helps prevent **very big price drops or sudden shortages**.

5. Bulk Buying Advantage

Warehousing allows businesses to **buy goods in large quantities at lower prices** and store them.

Buying in bulk usually **reduces the cost per item**.

Example

A shop buys **50 cartons of soap at once** from a wholesaler and stores them in a warehouse.

Because of buying in large quantities, the shop **gets a discount** and increases profit.

6. Easy Distribution of Goods

Warehouses help businesses **organize and distribute goods to different shops or customers easily**.

Example

A company selling drinks stores many cartons in a warehouse.

From the warehouse, trucks deliver drinks to **different shops in different towns**.

This makes distribution **organized and efficient**.

7. Creation of Employment

Warehouses create **job opportunities for many people**.

Workers are needed to:

- load goods
- unload goods
- arrange goods
- keep records
- operate machines

Example

A large warehouse may employ:

- storekeepers
- security guards
- forklift operators
- cleaners

This helps **many people earn a living**.

8. Financing Opportunities

Goods stored in warehouses can sometimes be used as **security to obtain loans from banks**.

Example

A coffee trader stores **many bags of coffee in a warehouse**.

The bank sees the stored coffee as **valuable property** and may give the trader a **loan**.

The trader can use the loan to **expand the business**.

Simple Summary Table

Merit of Warehousing	Simple Meaning	Example
Storage of goods	Provides space to keep goods	Storing extra rice bags
Protection of goods	Prevents damage and theft	Sugar protected from rain
Continuous supply	Goods always available	Milk restocked from warehouse
Price stabilization	Helps to control price changes	Storing maize after harvest
Bulk buying	Allows buying large quantities cheaply	Buying many cartons of soap
Easy distribution	Helps send goods to many places	Drinks supplied to many shops
Employment creation	Provides jobs	Warehouse workers
Financing opportunity	Goods used to get loans	Coffee trader getting bank loan

Demerits (Disadvantages) of warehousing

Warehousing is useful for storing goods, but it also has **some disadvantages or problems** that businesses may face.

1. High Cost of Storage

Warehousing can be **expensive** because the business must pay for:

- rent or building the warehouse
- workers' salaries
- electricity
- security

Example

A small trader rents a warehouse for **TShs 300,000 per month** to store rice.

If the rice sells slowly, the trader **continues paying rent**, which reduces profit.

2. Risk of Damage to Goods

Goods stored for a long time may be **damaged by moisture, pests, or poor handling**.

Example

A trader stores **maize bags in a warehouse for many months**.

If the warehouse is not well protected, **rats may eat the maize** or moisture may spoil it.

3. Risk of Theft

Goods stored in warehouses may be **stolen by thieves or dishonest workers**.

Example

A warehouse storing **phones and electronics** may attract thieves.

If security is weak, some goods may be **stolen at night**.

4. Risk of Fire

Warehouses may face **fire accidents**, especially when storing flammable goods.

Example

A warehouse storing **paper cartons or clothes** catches fire because of an electrical fault.

The fire can **destroy large quantities of goods**.

5. Additional Handling Costs

Goods in warehouses must be **loaded, unloaded, moved, and arranged** many times.

This increases **labour and transport costs**.

Example

When goods arrive, workers **unload them from trucks and place them in the warehouse**.

Later they must **load them again for delivery**.

This handling requires **workers and equipment**, which costs money.

6. Delay in Delivery

Sometimes storing goods in warehouses may **slow down delivery to customers**.

Example

A customer orders goods from a shop.

The goods are stored in a **far warehouse**, so workers must first collect them and transport them to the shop.

This can **delay the customer's order**.

7. Risk of Obsolescence

Some goods may become **old-fashioned or outdated** while stored in the warehouse.

Example

A trader stores **old mobile phone models** in a warehouse.

After some months, **new phone models enter the market**, and customers no longer want the old ones.

The stored phones may become **hard to sell**.

8. Spoilage of Perishable Goods

Goods like **food, fruits, vegetables, or milk** may spoil if stored for too long.

Example

A trader stores **fresh tomatoes in a warehouse**.

If they stay too long without proper refrigeration, the tomatoes **rot and cannot be sold**.

Simple Summary Table

Demerit of Warehousing	Simple Meaning	Example
High storage cost	Expensive to maintain warehouse	Paying rent and electricity
Damage to goods	Goods may spoil or break	Rats destroying maize
Theft risk	Goods may be stolen	Electronics stolen from warehouse
Fire risk	Fire can destroy goods	Electrical fire in clothing warehouse
Handling cost	Loading and unloading costs money	Workers moving goods
Delivery delays	Goods may take longer to reach customers	Goods stored far from shop
Obsolescence	Goods become outdated	Old phone models
Spoilage	Perishable goods may rot	Tomatoes spoiling

The concept of Inventorying

Inventories (Stock)

Inventories are the **goods or items that a business has in stock for sale or for use in the business**.

In simple words:
Inventories = all the goods a business has at a given time

Example

A small shop has:

- 50 bags of rice
- 30 cartons of soap
- 20 cartons of cooking oil

All these goods together are called the **inventory of the business**.

Another Example

A clothes shop has:

- shirts
- trousers
- dresses

These clothes are the shop's **inventory**.

Inventorying

Inventorying is the **process of counting, checking, and recording the goods a business has**.

In simple words:
Inventorying = checking how many goods you have

Example

A shop owner closes the shop in the evening and counts:

- 45 bags of rice
- 28 cartons of soap

He writes these numbers in a book.

This activity of **counting and recording stock** is called **inventorying**.

Inventory Management

Inventory management is the **process of controlling and organizing inventory so that the business always has the right amount of goods at the right time**.

In simple words:
Inventory management = managing stock properly

It includes:

- buying goods
- storing goods
- tracking goods
- avoiding too much or too little stock

Example

A shop owner:

- Buys goods before they run out
- Avoids buying too much that may spoil
- Keeps records of stock
- Arranges goods properly in the store

All these activities together are called **inventory management**.

Easy Way to Understand the Difference

Term	Simple Meaning	Example
Inventories	Goods in stock	Rice, soap, oil in a shop
Inventorying	Counting and recording stock	Counting 50 bags of rice
Inventory Management	Controlling and organizing stock	Buying, storing, and tracking goods

Very Simple Summary

- **Inventories** → What you have
- **Inventorying** → Counting what you have
- **Inventory Management** → Controlling how you use what you have

Example to remember easily:

A shop has **100 bottles of soda**.

- The bottles = **Inventory**
- Counting the bottles = **Inventorying**
- Deciding when to buy more and how to store them = **Inventory Management**

Functions of inventory management

These functions help a business **handle goods properly from the time they arrive until they are sold**.

1. Receiving Stock

This means **accepting and checking goods when they arrive at the business**.

The business must:

- check quantity (how many items)
- check quality (if goods are in good condition)
- record the goods

Example

A shop owner receives:

- 50 bags of rice from a supplier

He:

- counts the bags (to confirm they are 50)
- checks if any bag is torn

If everything is correct, he accepts the goods.

☞ This process is called **receiving stock**.

2. Issuing Stock

This means **removing goods from storage to be sold or used**.

Goods can be issued:

- to the shop (for selling)
- to customers
- for use in the business

Example

A shop keeps extra drinks in the store.

When drinks on the shelves finish, the worker:

- takes cartons from the store
- puts them on shelves

☞ This is called **issuing stock**.

3. Care of Stock

This means **keeping goods safe and in good condition**.

It involves:

- protecting goods from damage
- keeping them clean
- storing them properly

Example

A shop owner:

- keeps rice in a **dry place**
- keeps milk in a **cool place**

This prevents goods from **spoiling or getting damaged**.

☞ This is called **care of stock**.

4. Placement of Stock Items

This means **arranging goods in the right place in the store or warehouse so they are easy to find and use**.

Goods are arranged:

- by type
- by size
- by usage

Example

In a shop:

- soap is placed in one section
- sugar in another
- drinks on shelves

Fast-selling goods are kept **near the front** for easy access.

☞ This is called **placement of stock**.

5. Stock Control

This means **monitoring and managing stock to avoid shortage or excess**.

It includes three main activities:

(a) Stock Taking

This means **physically counting the goods available**.

Example

A shop owner counts:

- 40 bags of rice
- 20 cartons of oil

This helps him know the **exact stock level**.

(b) Re-Stocking

This means **buying more goods before they run out**.

Example

If only **5 bags of rice remain**, the shop owner orders more before stock finishes.

This prevents **loss of customers**.

(c) Stock Valuation

This means **finding the total value (money worth) of the goods in stock**.

Example

A shop has:

- 10 bags of rice × Tsh 50,000 = Tsh 500,000

This helps the owner to know the **value of stock in the business**.

Simple Summary Table

Function	Simple Meaning	Example
Receiving stock	Accepting and checking goods	Counting 50 bags of rice
Issuing stock	Taking goods out for use/sale	Moving drinks to shelves
Care of stock	Keeping goods safe	Storing milk in a cool place
Placement of stock	Arranging goods properly	Soap in one section
Stock control	Managing stock levels	Counting and reordering goods

Very Simple Way to Remember

Inventory management helps a business to:

1. **Receive goods properly**
2. **Give out goods when needed**
3. **Take care of goods**
4. **Arrange goods well**
5. **Control stock levels**

Types of inventories

Identifying types of inventory helps business owners to manage their resources and improve their operations. The main types of inventory are:

1. Raw Materials

These are **basic materials used to produce goods**.

In simple words:
Raw materials = items used to make other products

Example

A bakery uses:

- flour
- sugar
- eggs

These are **raw materials** because they are used to make bread and cakes.

☞ Before baking, these items are **not finished products**.

2. Work in Progress (WIP)

These are **goods that are not yet finished but are in the process of being made**.

In simple words:
Work in progress = unfinished goods

Example

In a bakery:

- dough that is being prepared
- cakes that are still in the oven

These are **work in progress** because they are **not ready for sell yet**.

3. Finished Goods

These are **goods that are completely made and ready for sale to customers**.

In simple words:
Finished goods = ready-to-sell products

Example

In the bakery:

- baked bread
- ready cakes

These are **finished goods** because customers can **buy them immediately**.

4. Maintenance, Repair and Operations (MRO) Inventory

These are **items used to support the business but not sold to customers**.

In simple words:
MRO inventory = items used to run the business

Example

A shop uses:

- light bulbs
- cleaning tools

- machine oil

These are **not for sale**, but they help the business **operate smoothly**.

5. Cleaning Equipment / Repair Parts

These are **tools and spare parts used to clean, fix, or maintain equipment and the workplace**.

In simple words:
Items used to clean or repair things in the business

Example

A shop or warehouse uses:

- brooms and mops (cleaning)
- spare parts for a fridge or machine
- tools like spanners

These items help to keep the business **clean and working properly**.

Simple Summary Table

Type of Inventory	Simple Meaning	Example
Raw materials	Used to make products	Flour, sugar in bakery
Work in progress	Unfinished goods	Dough or cake in oven
Finished goods	Ready for sale	Bread, cakes

Type of Inventory	Simple Meaning	Example
MRO inventory	Used to run business	Light bulbs, machine oil
Cleaning/repair items	Used for cleaning and fixing	Brooms, spare parts

Very Simple Way to Remember

- **Raw materials** → Before production
- **Work in progress** → During production
- **Finished goods** → After production
- **MRO & cleaning items** → Help the business run

Essential documents for warehouse and inventory management

In a business, **documents are very important** because they help to:

- record movement of goods
- avoid confusion and losses
- keep accurate stock information

In simple words:
These documents help a business to know what comes in, what goes out, and what remains in stock.

1. Goods Received Note (GRN)

A **Goods Received Note** is a document prepared by a business owner **when goods received and arrive at the warehouse** from the supplier.

It shows:

- what goods were received
- quantity received
- condition of goods

Example

A shop orders **50 bags of rice**.
When the rice arrives, the storekeeper checks and confirms they are 50.

He writes a **Goods Received Note**.

☞ This proves the goods were **received correctly**.

2. Bin Card

A **Bin Card** is a record **kept near the goods in the store** showing:

- goods received
- goods issued
- balance remaining

In simple words:
It shows stock movement for each item

Example

Near the rice bags, there is a card showing:

- Received: 50 bags
- Issued: 10 bags
- Balance: 40 bags

☞ This helps workers to **know stock without counting every time**.

3. Delivery Note

A **Delivery Note** is a document **sent with goods when they are delivered to a customer**.

It shows:

- items delivered
- quantity
- date

Example

A shop sells **20 cartons of soda** to a hotel.

The goods are sent with a **delivery note**.

The hotel signs it to confirm **they received the goods**.

4. Inventory Ledger (Stock Ledger)

An **Inventory Ledger** is a detailed record of **all stock transactions for each item**.

It shows:

- goods received
- goods issued
- stock balance
- sometimes value of goods

Example

A shop keeps a book showing:

Item	Received	Issued	Balance
Rice	100	40	60

☞ This helps the owner to **track stock over time**.

5. Purchase Order

A **Purchase Order** is a document sent to a supplier **to request goods**.

It shows:

- type of goods
- quantity
- price (sometimes)

Example

A shop needs more sugar.

The owner sends a **purchase order** requesting:

- 30 bags of sugar

☞ This is the **official request to buy goods**.

6. Stock Take Sheets

A **Stock Take Sheet** is used when **physically counting stock**.

It records:

- actual quantity counted
- differences from records

Example

At the end of the month, a shop counts:

- 45 bags of rice (but records show 50)

This is written in a **stock take sheet**.

☞ Helps to find **missing or extra goods**.

7. Stock Valuation Report

A **Stock Valuation Report** shows the **total value (money worth) of stock available**.

Example

A shop has:

- 10 bags of rice × Tsh 50,000 = Tsh 500,000
- 5 cartons of oil × Tsh 30,000 = Tsh 150,000

Total stock value = **Tsh 650,000**

☞ This helps the owner to know **how much money is tied in stock**.

Simple Summary Table

Document	Simple Use	Example
Goods Received Note	Confirms goods received	Receiving 50 bags of rice
Bin Card	Shows stock movement	Rice balance = 40 bags
Delivery Note	Confirms goods delivered	Sending soda to hotel
Inventory Ledger	Full stock record	Tracking rice over time
Purchase Order	Request goods from supplier	Ordering sugar
Stock Take Sheet	Records physical counting	Counting 45 bags of rice
Stock Valuation Report	Shows value of stock	Stock worth Tsh 650,000

Very Simple Way to Remember

These documents help answer:

- **What came in?** → GRN
- **What is available?** → Bin card / Ledger
- **What went out?** → Delivery note
- **What was ordered?** → Purchase order
- **What is counted?** → Stock take sheet

- **What is the value?** → Stock valuation report

Methods for inventory management

Businesses use different **methods (ways)** to manage inventory so that they can:

- know how much stock they have
- avoid shortages and excess
- reduce losses

In simple words:
Inventory methods help a business to control and track its stock properly.

1. Manual Inventory Management

This method uses **pen, paper, or books** to record stock.

In simple words:
Everything is recorded by hand

Example

A small shop owner writes in a notebook:

- goods bought
- goods sold
- goods remaining

☞ This method is **simple and cheap**, but it can have **errors**.

2. Periodic Inventory System

In this method, stock is **checked and counted after a certain period**, like weekly or monthly.

In simple words:
Stock is not tracked daily, only checked at intervals

Example

A shop owner does not check stock every day.

At the end of the month, he counts:

- 40 bags of rice
- 20 cartons of oil

☞ This helps know stock **after a period**, not immediately.

3. Perpetual Inventory System

In this method, stock is **updated continuously after every transaction**.

In simple words:
Stock records are always up to date

Example

Each time a shop sells a carton of milk:

- the system immediately reduces stock

If 10 cartons were available and 2 are sold → balance becomes 8 instantly.

☞ This method gives **accurate and real-time information**.

4. ABC Analysis

This method groups stock into **three categories based on importance and value**.

- **A items** → very valuable, small quantity
- **B items** → medium value
- **C items** → low value, large quantity

In simple words:
Important items are controlled more carefully

Example

A shop sells:

- Phones (very expensive) → Category A
- Clothes → Category B
- Pens and notebooks → Category C

The owner:

- checks phones very carefully
- checks pens less strictly

☞ This helps focus on **important goods**.

5. Stock Turnover Ratio

This method shows **how fast goods are sold and replaced**.

In simple words:
It measures how quickly stock moves

- High turnover → goods sell fast
- Low turnover → goods sell slowly

Example

A shop sells bread:

- Bread is sold **daily** → high turnover

But furniture:

- may take **months to sell** → low turnover

☞ This helps the owner know:

- which goods sell fast
- which goods stay too long

Simple Summary Table

Method	Simple Meaning	Example
Manual system	Records done by hand	Writing in a notebook
Periodic system	Stock checked after time	Monthly counting
Perpetual system	Stock updated daily	System updates after sale
ABC analysis	Grouping by importance	Phones (A), pens (C)
Stock turnover	Speed of selling stock	Bread sells fast

Very Simple Way to Remember

- **Manual** → Write by hand
- **Periodic** → Check after time
- **Perpetual** → Always updated
- **ABC** → Important vs less important goods
- **Turnover** → How fast goods sell

REVISION QUESTIONS

SECTION A: Warehousing Concepts

Question 1

Neema runs a small business selling food items. She buys goods in large quantities and keeps extra stock in a separate building behind her shop.

a) Explain the role of the storage building in her business.
b) Describe two ways this storage practice helps her business operate smoothly.

Question 2

A trader stores maize after harvest and sells it later when prices rise.

a) Explain how this practice affects market prices.
b) Analyse one advantage and one possible risk of this decision.

SECTION B: Types of Warehouses

Question 3

A large supermarket owns a storage building used only for its goods. Another small trader rents space in a city warehouse.

a) Distinguish between the two types of warehouses used.
b) Explain why the small trader chooses the rented warehouse.

Question 4

Imported electronics are kept at the port before taxes are paid.

a) Explain the type of warehouse used in this situation.
b) Describe the importance of this system to the government and trader.

SECTION C: Warehouse Management

Question 5

In a warehouse, goods are mixed together, the store is dirty, and some items are damaged.

a) Analyse two problems caused by poor warehouse management.
b) Propose three practical improvements to correct the situation.

Question 6

A warehouse manager arranges goods by type, checks stock regularly, and ensures workers follow safety rules.

a) Explain how these practices improve efficiency.
b) Illustrate one risk that may occur if safety rules are ignored.

SECTION D: Merits and Demerits of Warehousing

Question 7

A business stores large quantities of goods but faces high costs and occasional spoilage.

a) Analyse two benefits of storing goods in large quantities.
b) Explain two challenges the business is facing.

Question 8

A trader stores perishable goods for a long time and later experiences losses.

a) Explain why the losses occurred.
b) Suggest two ways to reduce such losses in the future.

SECTION E: Inventorying and Inventory Management

Question 9

A shop owner regularly counts goods, records stock levels, and orders new goods before stock runs out.

a) Explain how these activities support business operations.
b) Analyse the risks if these activities are not performed.

Question 10

A business fails to monitor its inventory and frequently runs out of fast-selling goods.

a) Explain how poor inventory management affects customer satisfaction.
b) Suggest two improvements to ensure continuous supply.

SECTION F: Functions of Inventory Management

Question 11

A shop receives goods, stores them properly, and issues them when needed.

a) Explain how these activities are connected in managing stock.

b) Analyse how poor handling at any stage may affect the business.

Question 12

During stock taking, a business discovers differences between recorded and actual stock.

a) Explain two possible causes of this difference.
b) Suggest two control measures to avoid such problems.

SECTION G: Types of Inventories

Question 13

A bakery uses flour to prepare dough, which is later baked into bread for sale.

a) Classify the items into different inventory types.
b) Explain how each type contributes to the production process.

Question 14

A business keeps cleaning tools, spare parts, and finished goods.

a) Explain the role of these different items in business operations.
b) Analyse why they should be managed differently.

SECTION H: Warehouse & Inventory Documents

Question 15

A shop orders goods, receives them, stores them, and later delivers them to customers.

a) Explain how documents are used at each stage of this process.
b) Analyze how proper documentation helps reduce business risks.

Question 16

During stock verification, a business uses bin cards and stock take sheets.

a) Explain how these documents work together.
b) Describe one problem that may arise if they are not updated correctly.

SECTION I: Methods of Inventory Management

Question 17

A small shop uses a notebook to record stock, while a supermarket uses a computerized system that updates stock instantly.

a) Compare the effectiveness of the two methods.
b) Analyse one advantage and one limitation of each method.

Question 18

A business groups its goods into high-value and low-value categories and gives more attention to expensive items.

a) Explain the reasoning behind this approach.
b) Illustrate how this method improves stock control.

Question 19

A shop checks its stock only at the end of each month and sometimes discovers shortages.

a) Explain why shortages may occur under this system.
b) Suggest a more effective method and justify your answer.

Question 20

A business notices that some goods sell very fast while others remain in storage for a long time.

a) Analyse how this information helps in decision making.
b) Suggest two actions the business can take to improve performance.

TOPIC FIVE
BUSINESS OPPORTUNITY IDENTIFICATION

What is business opportunity?

A **business opportunity** is a chance to make money by solving a problem or meeting a need in the community or market.

☞ In simple terms:
"People need something → you provide it → you earn profit."

Example:

- In a hot place, many people want cold drinks → opening a juice or soda shop is a business opportunity.
- If people struggle to find clean water → selling filtered water is a business opportunity.

This **process of finding and recognizing** business opportunity is known as Business opportunity identification

☞ In simple terms:
"Looking around to discover what people need or what is missing and provide it in order to make profit (money)"

Importance of identifying business opportunities

1. Job Creation

Identifying business opportunities helps to create jobs for yourself and others.

☞ Example:
If you start a small restaurant, you may hire cooks, waiters, and cleaners.

2. Problem Solving

Businesses exist to solve people's problems.

☞ Example:
If people lack clean drinking water, starting a water-selling business solves that problem.

3. Promotes Creativity

It encourages you to think of new ideas and better ways of doing things.

☞ Example:
Instead of a normal food stall, you create a mobile food delivery service using a bicycle.

4. Independence

It allows you to be your own boss and not depend on employment.

☞ Example:
Starting your own tailoring business means you don't rely on a salary from someone else.

5. Social Benefit

Businesses can improve the community and people's lives.

☞ Example:
Opening a school or clinic helps people get education and healthcare.

6. Income Generation

It helps you to earn money and improve your standard of living.

☞ Example:
Selling fruits gives you daily income to support your family.

7. Economic Growth

Businesses help develop the country's economy.

☞ Example:
Many small businesses in a town increase trade, attract customers, and grow the local economy.

Short Summary

Identifying business opportunities is important because it:

- Creates jobs
- Solves problems
- Encourages creativity
- Brings independence
- Benefits society
- Generates income
- Grows the economy

Ways of identifying business opportunities

Identifying business opportunities means **finding ideas that can become successful businesses**.
You do this by looking at **what people need, what you enjoy, and what is happening around you**.

1. Find Your Passion

Start with what you love and what you are good at.

(a) Hobbies and Interests

☞ What do you enjoy doing?

Example:

- If you love cooking → start a food business or snack selling.
- If you enjoy photography → offer photo services at events.

(b) Strength or Talent

☞ What are you naturally good at?

Example:

- Good at fixing phones → start a phone repair business.
- Good at braiding hair → open a small salon.

(c) Values

☞ What matters most to you?

Example:

- If you care about the environment → sell reusable bags instead of plastic.
- If you value health → start a fresh juice or organic food business.

(d) Curiosity

☞ What are you interested in learning or exploring?

Examples:

- Curious about online business → start selling clothes on social media.
- Interested in technology → learn and offer digital services like graphic design.

2. Observe Your Surroundings

Look at what is happening around you daily.

☞ Ask yourself:

- What problems do people face?
- What is missing?

Examples:

- Long queues at shops → start a delivery service.
- Many tourists in your area → start a tour guide or souvenir business.
- No nearby water supply → sell clean drinking water.

3. Use Your Network

Talk to people and learn from them.

☞ Your network includes:

- Friends
- Family
- Teachers
- Business people

Examples:

- A friend tells you students need affordable lunch → start a food stall near school.
- A farmer tells you seeds are hard to find → start selling farm inputs.

4. Market Research

This means **collecting information before starting a business**.

(a) Use Surveys

☞ Ask many people simple questions.

Example:

- Ask: “Do you prefer tea or juice in the morning?”
- Results help you decide what to sell.

(b) Conduct Interviews

☞ Talk to people directly.

Example:

- Interview shop owners to know which products sell fast.

(c) Observation

☞ Watch what people do and buy.

Examples:

- Notice many people buying snacks in the evening → start a snack business.
- See many people using smartphones → sell phone accessories.

Short Summary

You can identify business opportunities by:

- Following your passion (what you love and are good at)
- Observing problems around you
- Talking to people (your network)
- Doing simple market research (surveys, interviews, observation)

REVISION QUESTIONS AND ANSWERS

SECTION A: Multiple Choice Questions

Choose the correct answer:

1. A business opportunity is:
   A. A job opportunity
   B. A chance to make profit
   C. A loss of money
   D. A salary in each month

☞ Answer: **B**

2. Identifying business opportunities means:
   A. Starting a business immediately
   B. Finding chances to start a business
   C. Closing a business immediately
   D. Borrowing money from someone

☞ Answer: **B**

3. Which of the following is an example of problem solving?
   A. Buying clothes from a shop
   B. Selling clean water in areas with shortages
   C. Watching TV at evening
   D. Sleeping at night

☞ Answer: **B**

4. Which of the following promotes creativity?
   A. Copying others exactly
   B. Thinking of new ideas

C. Ignoring problems
D. Avoiding work

☞ Answer: **B**

5. Market research involves:
   A. Guessing the source of problem
   B. Asking and observing customers
   C. Sleeping while others working
   D. Playing games with friends

☞ Answer: **B**

SECTION B: Short Answer Questions

1. Define a business opportunity.
   A business opportunity is a chance to make money by solving a problem or meeting a need.

2. What is business opportunity identification?
   It is the process of finding and recognizing business ideas.

3. Give two importance of identifying business opportunities.

- Creates jobs
- Generates income

4. State two ways of identifying business opportunities.

- Observing surroundings
- Market research

5. What is a survey?
   A survey is asking many people questions to collect information.

SECTION C: Structured Questions

1. Explain three importance of identifying business opportunities (with examples)

- **Job creation:** Starting a shop creates jobs for workers.
- **Problem solving:** Selling water helps people without clean water.
- **Independence:** Owning a business makes you your own boss.

2. Explain ways of identifying business opportunities

- **Passion:** Do what you love (e.g., cooking → food business)
- **Observation:** Identify problems (e.g., no transport → start boda boda service)
- **Network:** Talk to people (e.g., farmers need tools → sell tools)
- **Market research:** Ask and observe customers

3. Explain four element of passion with examples

- **Hobbies:** Things you enjoy (e.g., photography)
- **Talent:** What you are good at (e.g., hair braiding)
- **Values:** What matters to you (e.g., health → juice business)
- **Curiosity:** What you want to learn (e.g., online selling)

SECTION D: Scenario Questions

1. Scenario:

Amina notices many students stay hungry at school because there is no food vendor.

Questions:
a) What business opportunity has she identified?
☞ Food selling business

b) What method did she use?
☞ Observation

2. Scenario:

Juma loves repairing phones and people often ask for his help.

Questions:
a) Which way did he use to identify opportunity?
☞ Talent/strength

b) State one importance of this opportunity.
☞ Income generation

3. Scenario:

A survey shows many people prefer fresh juice instead of soda.

Questions:
a) What method was used?
☞ Survey (market research)

b) What business can be started?

☞ Juice business

SECTION E: True or False

1. Business opportunities help solve problems. → **True**
2. Market research is not important. → **False**
3. Passion cannot lead to business ideas. → **False**
4. Observation helps identify opportunities. → **True**
5. Businesses do not create jobs. → **False**